

The Recent Pattern of Consumption

CONSUMER buying reached a peak rate in the third quarter of 1953, and has since declined only slightly in total. The comparative strength of consumer purchasing has been a sustaining market factor, but variations among commodity and service purchasing have had important consequences on business sales and on employment and income. Consumers take nearly two-thirds of the total output of goods and services, and the intensity of their demand is an important influence on the course of total business activity.

From the point of view of business firms, major interest centers in the volume and shifts in consumer purchases by lines. From the point of view of general business analysis, interest focuses on the trend of purchasing power and its use. This article is concerned with analyses bearing on both aspects.

Recent purchases of goods

The developments in consumer demand in the past year may be characterized by: (1) a leveling off in total consumption expenditures not far from the high reached in the latter part of 1953 after a period of sustained advance; and (2) a shift in purchases among major types of goods and services.

Total personal consumption expenditures for goods and services reached an annual rate of \$231 billion in the third quarter of 1953. A small drop of \$1 billion occurred in the fourth quarter, and preliminary indications are that this rate was maintained in the first quarter of 1954. Purchasing power, as measured by personal disposable income, also showed little change after the third quarter of last year. The cut in personal income tax rates which went into effect on January 1, 1954, contributed to the maintenance of this buying power which so far in 1954 is higher than a year ago, though off slightly from the mid-1953 high point.

Mixed trends in the pattern of buying within a comparatively stable total have had important effects on total production and employment. The following table shows the changes in major categories of consumer purchases from the first quarter 1953 to the first quarter 1954, computed from preliminary estimates of recent buying.

From the third quarter of 1953 to the first quarter of 1954, consumer buying of goods dropped about 2 percent.¹ This was partly offset by a rise in expenditures for services, of which about half is accounted for by the increase in housing. The decline in the purchases of durable goods was quite pronounced, amounting to about 7 percent during this period, most of which occurred in passenger automobiles and parts. In contrast, purchases of nondurables declined very little.

1. It may be noted that the decline in seasonally adjusted retail sales from third quarter 1953 to first quarter 1954 was 3 percent. The decline in consumer purchases of goods at 2 percent is consistent with the retail sales movement. Part of the autos sold by retailers are for business use and most of the sales of the building materials, hardware and farm implement dealers are bought for other than personal consumption. These groups have shown more pronounced declines than the other major kinds of retail businesses.

NOTE.—MR. PARADISO IS CHIEF STATISTICIAN AND ASSISTANT DIRECTOR. MR. L. JAY ATKINSON OF THE CURRENT BUSINESS ANALYSIS DIVISION ASSISTED IN THE PREPARATION OF THE ARTICLE.

The divergence in the movement of goods and services had an important impact, since a given change in expenditures for services has a much smaller effect on employment and production than an equal change in purchases of goods. This differential effect partly accounts for the more pronounced declines in the consumer goods industries than is apparent from the small decline in total consumption. The appreciable drop in goods purchased resulted in unfavorable inventory-sales ratios in many lines and the industries affected curtailed their purchases of materials and reduced production in an attempt to curtail stocks.

Table 1.—Income and Consumption, Selected Periods

(Billions of dollars, seasonally adjusted at annual rates)

	1952	1953	1953	Change—first quarter 1954 from:	
				1953	1952
	I	I	III	I	I
Disposable income.....	228.7	245.4	249.8	4	21
Total personal consumption expenditures.....	212.7	227.7	231.0	2	16
Goods.....	142.2	141.4	151.7	-3	5
Durables.....	96.0	86.3	96.4	-2	3
Autos and parts.....	6.9	13.4	13.3	-2	3
Nondurables.....	117.2	121.2	121.3	-1	3
Food, clothing and shoes.....	82.0	85.1	84.4	-1	3
Services.....	70.5	76.3	79.3	5	11
Housing.....	22.2	25.3	26.4	2	4

Source: U. S. Department of Commerce, Office of Business Economics.

Production was affected more by the decline in Federal government purchases and by the lowered business purchasing to adjust inventories than by the change in consumer buying. Many firms built up inventories to the point where in mid-1953, with a general easing of demand pressures in the economy, they appeared high in relation to current and anticipated demand. Manufacturing and trade stocks were reduced primarily in the durable goods sectors, although some liquidation also occurred in nondurable lines even though here inventory-sales ratios were not particularly high.

Personal saving maintained

The recent parallel movement between personal consumption and income has been accompanied by the maintenance of the volume of personal saving at about the rate of the preceding 3 years. In this period, the ratio of personal saving to disposable personal income has been higher than the average of the earlier postwar years and of the prewar years. Correspondingly, the ratio of spending to income has been lower.

In 1953, consumer expenditures comprised 93 percent of disposable income. The ratio was fairly steady throughout the quarters of that year and preliminary indications are that it was roughly the same in the first quarter of 1954.

special catching-up influences following World War II, as consumers bought goods unavailable or in short supply during the war. As these influences diminished in force in the subsequent period, the spending-income ratio declined.

Consumers' taking of total output

Another way of appraising the position of consumption is to consider it in relation to total output. Although total personal consumption expenditures were at a peak in 1953, their proportion to gross national product was quite low—63 percent. This compares with 69 percent in 1948, 71 percent in 1940, and 76 percent in 1929. In fact, in the past three decades only in the war years 1942-45 has the consumer portion of total sales been lower than in the Korean period.

This ratio in the past 3 years is a reflection of a shift in the use of resources with more going to the government military program and less to private buying. The Federal government, as it stepped up the defense program, increased its share of total output from 8 percent in 1950 to 16 percent in 1953. This was accompanied by a reduction in the proportion of personal consumption expenditures to gross national product from 68 percent in 1950 to 63 percent in 1953, though consumption increased over this period. The proportion of investment to total product declined moderately from 1950 to 1953.

The expansion in Federal government purchases was accompanied by an increase in personal tax rates which resulted in a much smaller increase in disposable personal income from 1950 to 1953 than in personal income. Thus, as the following table shows, the decline from 1950 to 1953 in the ratio of consumption to personal income—namely 5 percentage points—was the same as the drop in the proportion of consumption to gross national product.

This compares with a reduction of less than 2 percentage points in the ratio of consumption to disposable income, which decline accounted for an increase in the saving ratio.

When these ratios for 1953 are compared with 1929, the shift is even more pronounced—the ratios of consumption to gross national product and personal income declined by almost the same amount—about 12 percentage points each—whereas the ratio of consumption to disposable income dropped by less than 3 percentage points.

This shift simply reflects the greater importance of government requirements now than a quarter of a century ago, a difference accounted for by defense needs since the growth of other government services has been in line over this period with the earlier trend. A reduction in government needs, accompanied by a cut in personal taxes, would make possible a shift in resources to personal consumption and a rise in the proportion of the consumer's share of the national product.

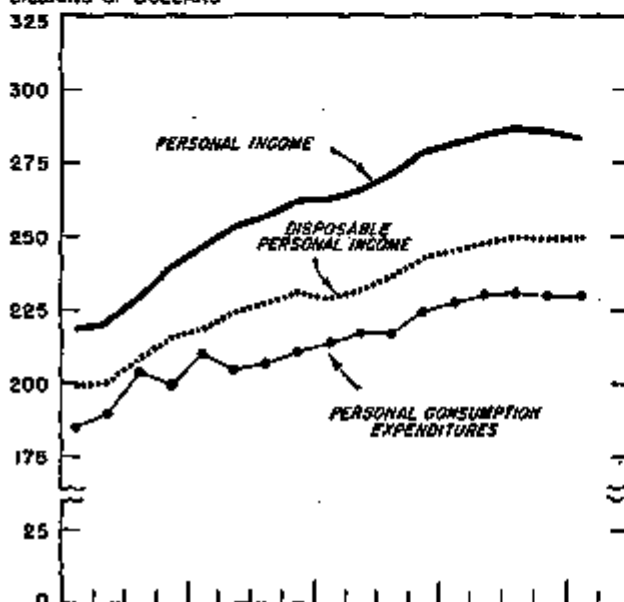
The shift in resource use may be viewed in terms of the long-run trend of the three major components of national product—consumer purchases, investment, and government purchases. In the past 50 years, real personal consumption expenditures have shown a persistent long-term growth averaging 2.7 percent per year, exclusive of the depression years of the thirties and war periods.

Fluctuations around this growth trend have been much less pronounced than the swings around the long-term trend of investment and government purchases—in other words consumption has been more stable than the other two. Real investment has shown wide fluctuations about a secular growth trend which has averaged a little more than 3 percent per year. Government purchases of goods and services, in real terms, including the Federal and State and local governments, have for obvious reasons shown the most pronounced swings in war and defense periods. Aside from such periods,

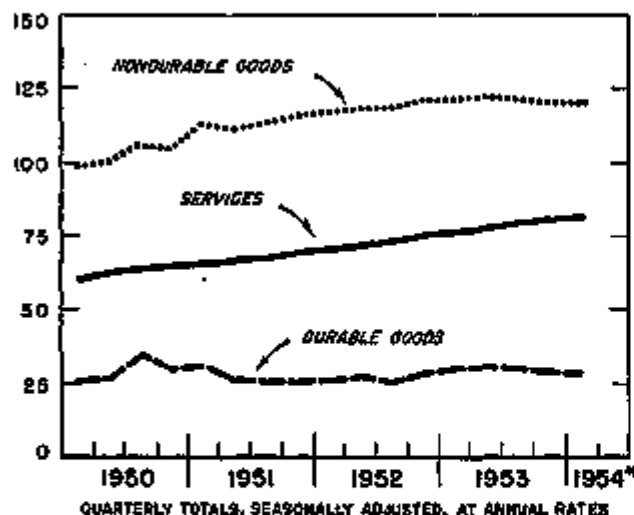
Consumer Expenditures and Income

Consumer expenditures have paralleled disposable income in the past three years

BILLIONS OF DOLLARS



In the past year durables have declined while services have risen



* PRELIMINARY ESTIMATE

OFFICE OF BUSINESS ECONOMICS, U. S. D. C.

64-13-4

The spending-income ratio of the past 3 years compares with an average of about 96 percent in the high employment peacetime years of the past 3 decades. The spending-income ratio was high in the 1947-50 period ranging from 94 percent to 98 percent. This was associated with the

however, these purchases have tended upward at an average rate of about 4 percent per year. The trends of these three major sectors have combined in a long-term growth of the nation's output at a rate averaging 3 percent per year.

Between 1950 and 1953 real personal consumption expenditures increased 6 percent. This was a somewhat slower rate than that indicated by the secular growth, but even with the rapid expansion of military needs during this period we were able to expand real per capita purchases of goods and services by a moderate amount. Real investment, which was at an exceptionally high rate in 1950 rose further in 1951

Table 2.—Comparison of Personal Consumption Expenditures and Total Output and Income

	Personal consumption expenditures to—		
	Gross national product	Personal income	Disposable income
1929	75.9	92.5	85.5
1940	71.1	92.1	85.1
1944	82.2	87.3	75.9
1948	68.7	84.9	84.4
1950	67.8	85.8	84.8
1951	63.1	81.8	82.8
1952	62.7	80.9	82.8
1953	62.6	80.8	82.7

Source: U. S. Department of Commerce, Office of Business Economics.

to meet government and other needs, and subsequently declined in relation to total output. Government purchases in real terms, on the other hand, increased by four-fifths.

The buying dollar

Some pronounced changes in the pattern of consumer buying of different goods and services have been evident in the past several years. As the chart indicates, consumers in 1953 used 35 cents out of each dollar spent for food, alcoholic beverages, and tobacco—a proportion which was considerably above prewar years; they spent 9 cents on clothing and shoes—below that in the earlier postwar years and in the

Table 3.—Personal Consumption Expenditures as a Percentage of Disposable Personal Income

	1929	1941	1948	1952	1953
Personal disposable income	100.0	100.0	100.0	100.0	100.0
Total personal consumption expenditures	95.5	89.8	94.4	92.8	92.7
Durable	11.4	10.7	12.1	11.4	12.3
Nondurable	45.7	47.8	55.0	50.5	45.9
Services	38.4	31.0	28.7	30.9	34.5
Total food, tobacco, clothing and shelter	50.9	50.1	53.3	52.1	50.8
Food (including alcoholic beverages and tobacco)	35.9	28.8	33.9	33.1	32.0
Clothing and shoes	11.2	9.0	10.7	8.8	8.4
Housing	12.8	10.8	8.7	10.3	10.4
Automobiles and parts	2.9	3.8	4.8	4.4	5.0
Furniture and house furnishings	5.6	5.2	8.1	5.1	5.0
Other goods and services	35.3	31.5	31.0	32.7	31.5

Source: U. S. Department of Commerce, Office of Business Economics.

prewar period; they spent 11.5 cents on housing, a larger proportion than in 1948, but smaller than in the prewar period. It is interesting to note that the proportion spent on the combined categories of food, beverages and tobacco, clothing, and shelter has been fairly stable in the past 25 years, exclusive of the war period—averaging around 55 cents out of each dollar spent.

Some shift has also been evident from prewar in the proportion going for autos and parts—6 cents out of each expenditure dollar in 1953, compared with 4 cents in 1929 and 1941. The proportion spent for the remaining goods and services as a group has been fairly constant since 1941, although smaller than in 1929. The detailed composition of this heterogeneous grouping has, of course, changed markedly.

Some of the changes noted have resulted from the fact that consumers tend to spend proportionately more on certain goods and services as income rises. This is the case, for example, for autos and parts and to a lesser extent for some major types of consumer durables.

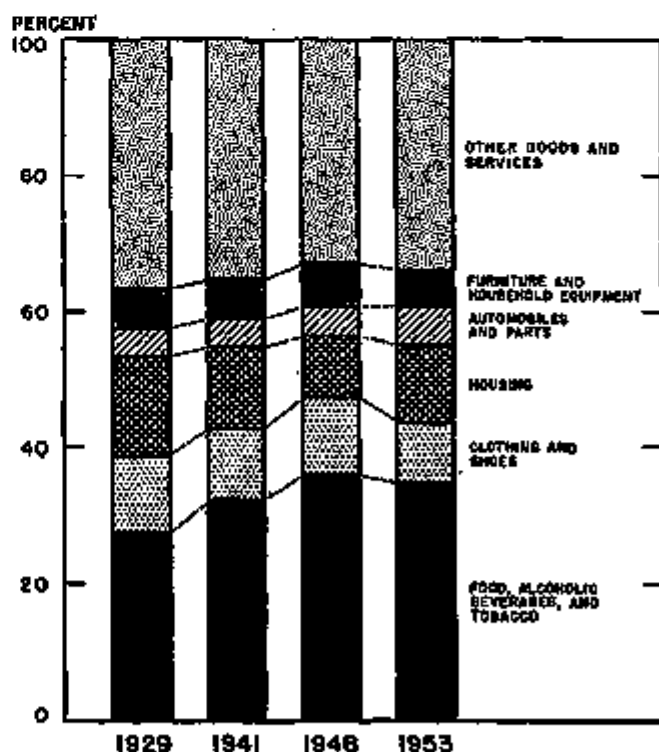
Similar shifts are evident in considering the ratios of consumption by major categories to disposable personal income. The following table shows these ratios for specified periods.

Consumption-income relations

Expenditure-income relationships are useful in furnishing guides to the current patterns. Significant shifts have at times occurred because of special factors, and as a consequence, simple relationships, such as ratios or linear regressions, will not account for all of the changes. Judgment

Shifts in Consumer Buying

Major groups of purchases as a percent of total consumer expenditures



OFFICE OF BUSINESS ECONOMICS, U. S. D. C.

54-13-5

must be used in selecting those years which are not dominated by special and temporary influences. Also, the results have to be weighed with care.

The chart on page 9 shows the pattern of consumption in relation to disposable personal income for the period

The Recent Pattern of Consumption

CONSUMER buying reached a peak rate in the third quarter of 1953, and has since declined only slightly in total. The comparative strength of consumer purchasing has been a sustaining market factor, but variations among commodity and service purchasing have had important consequences on business sales and on employment and income. Consumers take nearly two-thirds of the total output of goods and services, and the intensity of their demand is an important influence on the course of total business activity.

From the point of view of business firms, major interest centers in the volume and shifts in consumer purchases by lines. From the point of view of general business analysis, interest focuses on the trend of purchasing power and its use. This article is concerned with analyses bearing on both aspects.

Recent purchases of goods

The developments in consumer demand in the past year may be characterized by: (1) a leveling off in total consumption expenditures not far from the high reached in the latter part of 1953 after a period of sustained advance; and (2) a shift in purchases among major types of goods and services.

Total personal consumption expenditures for goods and services reached an annual rate of \$231 billion in the third quarter of 1953. A small drop of \$1 billion occurred in the fourth quarter, and preliminary indications are that this rate was maintained in the first quarter of 1954. Purchasing power, as measured by personal disposable income, also showed little change after the third quarter of last year. The cut in personal income tax rates which went into effect on January 1, 1954, contributed to the maintenance of this buying power which so far in 1954 is higher than a year ago, though off slightly from the mid-1953 high point.

Mixed trends in the pattern of buying within a comparatively stable total have had important effects on total production and employment. The following table shows the changes in major categories of consumer purchases from the first quarter 1953 to the first quarter 1954, computed from preliminary estimates of recent buying.

From the third quarter of 1953 to the first quarter of 1954, consumer buying of goods dropped about 2 percent.¹ This was partly offset by a rise in expenditures for services, of which about half is accounted for by the increase in housing. The decline in the purchases of durable goods was quite pronounced, amounting to about 7 percent during this period, most of which occurred in passenger automobiles and parts. In contrast, purchases of nondurables declined very little.

1. It may be noted that the decline in seasonally adjusted retail sales from third quarter 1953 to first quarter 1954 was 3 percent. The decline in consumer purchases of goods at 2 percent is consistent with the retail sales movement. Part of the autos sold by retailers are for business use and most of the sales of the building materials, hardware and farm implement dealers are bought for other than personal consumption. These groups have shown more pronounced declines than the other major kinds of retail businesses.

NOTE.—MR. PARADISO IS CHIEF STATISTICIAN AND ASSISTANT DIRECTOR. MR. L. JAY ATKINSON OF THE CURRENT BUSINESS ANALYSIS DIVISION ASSISTED IN THE PREPARATION OF THE ARTICLE.

The divergence in the movement of goods and services had an important impact, since a given change in expenditures for services has a much smaller effect on employment and production than an equal change in purchases of goods. This differential effect partly accounts for the more pronounced declines in the consumer goods industries than is apparent from the small decline in total consumption. The appreciable drop in goods purchased resulted in unfavorable inventory-sales ratios in many lines and the industries affected curtailed their purchases of materials and reduced production in an attempt to curtail stocks.

Table 1.—Income and Consumption, Selected Periods

(Billions of dollars, seasonally adjusted at annual rates)

	1952	1953	1953	Change—first quarter 1954 from:	
				1953	1952
	I	I	III	I	I
Disposable income.....	228.7	245.4	249.8	4	21
Total personal consumption expenditures.....	212.7	227.7	231.0	2	16
Goods.....	142.2	141.4	151.7	-3	5
Durables.....	96.0	86.3	96.4	-2	3
Autos and parts.....	6.9	13.4	13.3	-2	3
Nondurables.....	117.2	121.2	121.3	-1	3
Food, clothing and shoes.....	82.0	85.1	84.4	-1	3
Services.....	70.5	76.3	79.3	5	11
Housing.....	22.2	25.3	26.4	2	4

Source: U. S. Department of Commerce, Office of Business Economics.

Production was affected more by the decline in Federal government purchases and by the lowered business purchasing to adjust inventories than by the change in consumer buying. Many firms built up inventories to the point where in mid-1953, with a general easing of demand pressures in the economy, they appeared high in relation to current and anticipated demand. Manufacturing and trade stocks were reduced primarily in the durable goods sectors, although some liquidation also occurred in nondurable lines even though here inventory-sales ratios were not particularly high.

Personal saving maintained

The recent parallel movement between personal consumption and income has been accompanied by the maintenance of the volume of personal saving at about the rate of the preceding 3 years. In this period, the ratio of personal saving to disposable personal income has been higher than the average of the earlier postwar years and of the prewar years. Correspondingly, the ratio of spending to income has been lower.

In 1953, consumer expenditures comprised 93 percent of disposable income. The ratio was fairly steady throughout the quarters of that year and preliminary indications are that it was roughly the same in the first quarter of 1954.

special catching-up influences following World War II, as consumers bought goods unavailable or in short supply during the war. As these influences diminished in force in the subsequent period, the spending-income ratio declined.

Consumers' taking of total output

Another way of appraising the position of consumption is to consider it in relation to total output. Although total personal consumption expenditures were at a peak in 1953, their proportion to gross national product was quite low—63 percent. This compares with 69 percent in 1948, 71 percent in 1940, and 76 percent in 1929. In fact, in the past three decades only in the war years 1942-45 has the consumer portion of total sales been lower than in the Korean period.

This ratio in the past 3 years is a reflection of a shift in the use of resources with more going to the government military program and less to private buying. The Federal government, as it stepped up the defense program, increased its share of total output from 8 percent in 1950 to 16 percent in 1953. This was accompanied by a reduction in the proportion of personal consumption expenditures to gross national product from 68 percent in 1950 to 63 percent in 1953, though consumption increased over this period. The proportion of investment to total product declined moderately from 1950 to 1953.

The expansion in Federal government purchases was accompanied by an increase in personal tax rates which resulted in a much smaller increase in disposable personal income from 1950 to 1953 than in personal income. Thus, as the following table shows, the decline from 1950 to 1953 in the ratio of consumption to personal income—namely 5 percentage points—was the same as the drop in the proportion of consumption to gross national product.

This compares with a reduction of less than 2 percentage points in the ratio of consumption to disposable income, which decline accounted for an increase in the saving ratio.

When these ratios for 1953 are compared with 1929, the shift is even more pronounced—the ratios of consumption to gross national product and personal income declined by almost the same amount—about 12 percentage points each—whereas the ratio of consumption to disposable income dropped by less than 3 percentage points.

This shift simply reflects the greater importance of government requirements now than a quarter of a century ago, a difference accounted for by defense needs since the growth of other government services has been in line over this period with the earlier trend. A reduction in government needs, accompanied by a cut in personal taxes, would make possible a shift in resources to personal consumption and a rise in the proportion of the consumer's share of the national product.

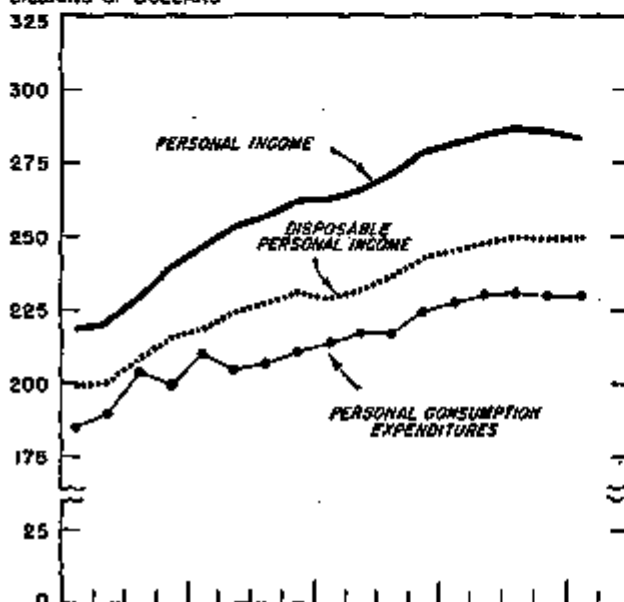
The shift in resource use may be viewed in terms of the long-run trend of the three major components of national product—consumer purchases, investment, and government purchases. In the past 50 years, real personal consumption expenditures have shown a persistent long-term growth averaging 2.7 percent per year, exclusive of the depression years of the thirties and war periods.

Fluctuations around this growth trend have been much less pronounced than the swings around the long-term trend of investment and government purchases—in other words consumption has been more stable than the other two. Real investment has shown wide fluctuations about a secular growth trend which has averaged a little more than 3 percent per year. Government purchases of goods and services, in real terms, including the Federal and State and local governments, have for obvious reasons shown the most pronounced swings in war and defense periods. Aside from such periods,

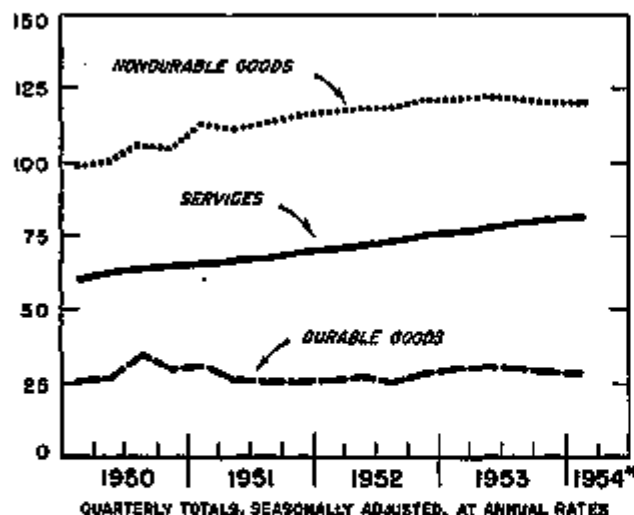
Consumer Expenditures and Income

Consumer expenditures have paralleled disposable income in the past three years

BILLIONS OF DOLLARS



In the past year durables have declined while services have risen



* PRELIMINARY ESTIMATE

OFFICE OF BUSINESS ECONOMICS, U. S. D. C.

64-13-4

The spending-income ratio of the past 3 years compares with an average of about 96 percent in the high employment peacetime years of the past 3 decades. The spending-income ratio was high in the 1947-50 period ranging from 94 percent to 98 percent. This was associated with the

however, these purchases have tended upward at an average rate of about 4 percent per year. The trends of these three major sectors have combined in a long-term growth of the nation's output at a rate averaging 3 percent per year.

Between 1950 and 1953 real personal consumption expenditures increased 6 percent. This was a somewhat slower rate than that indicated by the secular growth, but even with the rapid expansion of military needs during this period we were able to expand real per capita purchases of goods and services by a moderate amount. Real investment, which was at an exceptionally high rate in 1950 rose further in 1951

Table 2.—Comparison of Personal Consumption Expenditures and Total Output and Income

	Personal consumption expenditures to—		
	Gross national product	Personal income	Disposable income
1929	75.9	92.5	85.5
1940	71.1	92.1	85.1
1944	82.2	87.3	75.9
1948	68.7	84.9	84.4
1950	67.8	85.8	84.8
1951	63.1	81.8	82.8
1952	62.7	80.9	82.8
1953	62.6	80.8	82.7

Source: U. S. Department of Commerce, Office of Business Economics.

to meet government and other needs, and subsequently declined in relation to total output. Government purchases in real terms, on the other hand, increased by four-fifths.

The buying dollar

Some pronounced changes in the pattern of consumer buying of different goods and services have been evident in the past several years. As the chart indicates, consumers in 1953 used 35 cents out of each dollar spent for food, alcoholic beverages, and tobacco—a proportion which was considerably above prewar years; they spent 9 cents on clothing and shoes—below that in the earlier postwar years and in the

Table 3.—Personal Consumption Expenditures as a Percentage of Disposable Personal Income

	(Percent)				
	1929	1941	1948	1952	1953
Personal disposable income	100.0	100.0	100.0	100.0	100.0
Total personal consumption expenditures	95.5	89.8	94.4	92.8	92.7
Durable	11.4	10.7	12.1	11.4	12.3
Nondurable	45.7	47.8	55.0	50.5	45.9
Services	38.4	31.0	28.7	30.9	31.5
Total food, tobacco, clothing and shelter	50.9	49.1	53.3	52.1	50.8
Food (including alcoholic beverages and tobacco)	35.9	28.8	33.9	33.1	32.0
Clothing and shoes	11.2	9.0	10.7	8.8	8.4
Housing	12.8	10.3	8.7	10.3	10.4
Automobiles and parts	2.9	3.8	4.8	4.4	5.0
Furniture and house furnishings	5.6	5.2	6.1	5.1	5.0
Other goods and services	35.3	31.6	31.0	32.7	31.5

Source: U. S. Department of Commerce, Office of Business Economics.

prewar period; they spent 11.5 cents on housing, a larger proportion than in 1948, but smaller than in the prewar period. It is interesting to note that the proportion spent on the combined categories of food, beverages and tobacco, clothing, and shelter has been fairly stable in the past 25 years, exclusive of the war period—averaging around 55 cents out of each dollar spent.

Some shift has also been evident from prewar in the proportion going for autos and parts—6 cents out of each expenditure dollar in 1953, compared with 4 cents in 1929 and 1941. The proportion spent for the remaining goods and services as a group has been fairly constant since 1941, although smaller than in 1929. The detailed composition of this heterogeneous grouping has, of course, changed markedly.

Some of the changes noted have resulted from the fact that consumers tend to spend proportionately more on certain goods and services as income rises. This is the case, for example, for autos and parts and to a lesser extent for some major types of consumer durables.

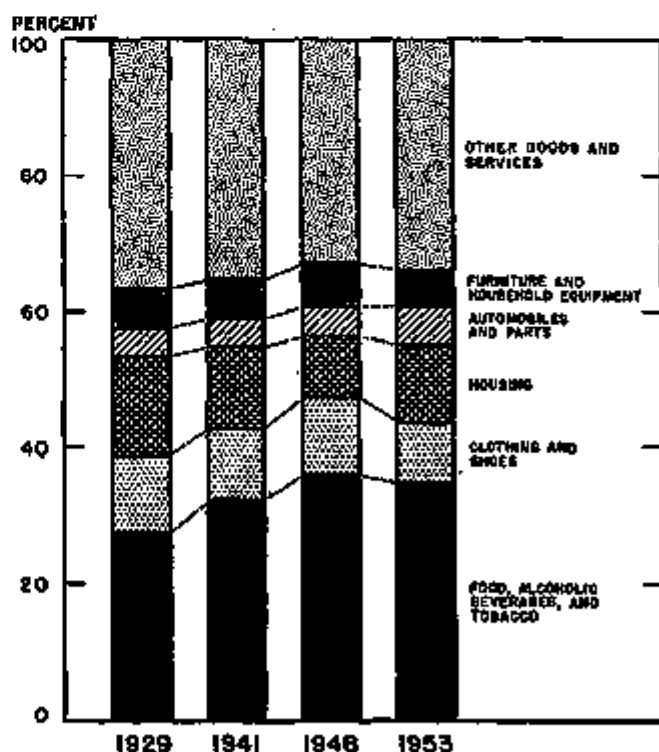
Similar shifts are evident in considering the ratios of consumption by major categories to disposable personal income. The following table shows these ratios for specified periods.

Consumption-income relations

Expenditure-income relationships are useful in furnishing guides to the current patterns. Significant shifts have at times occurred because of special factors, and as a consequence, simple relationships, such as ratios or linear regressions, will not account for all of the changes. Judgment

Shifts in Consumer Buying

Major groups of purchases as a percent of total consumer expenditures



OFFICE OF BUSINESS ECONOMICS, U. S. D. C.

54-13-5

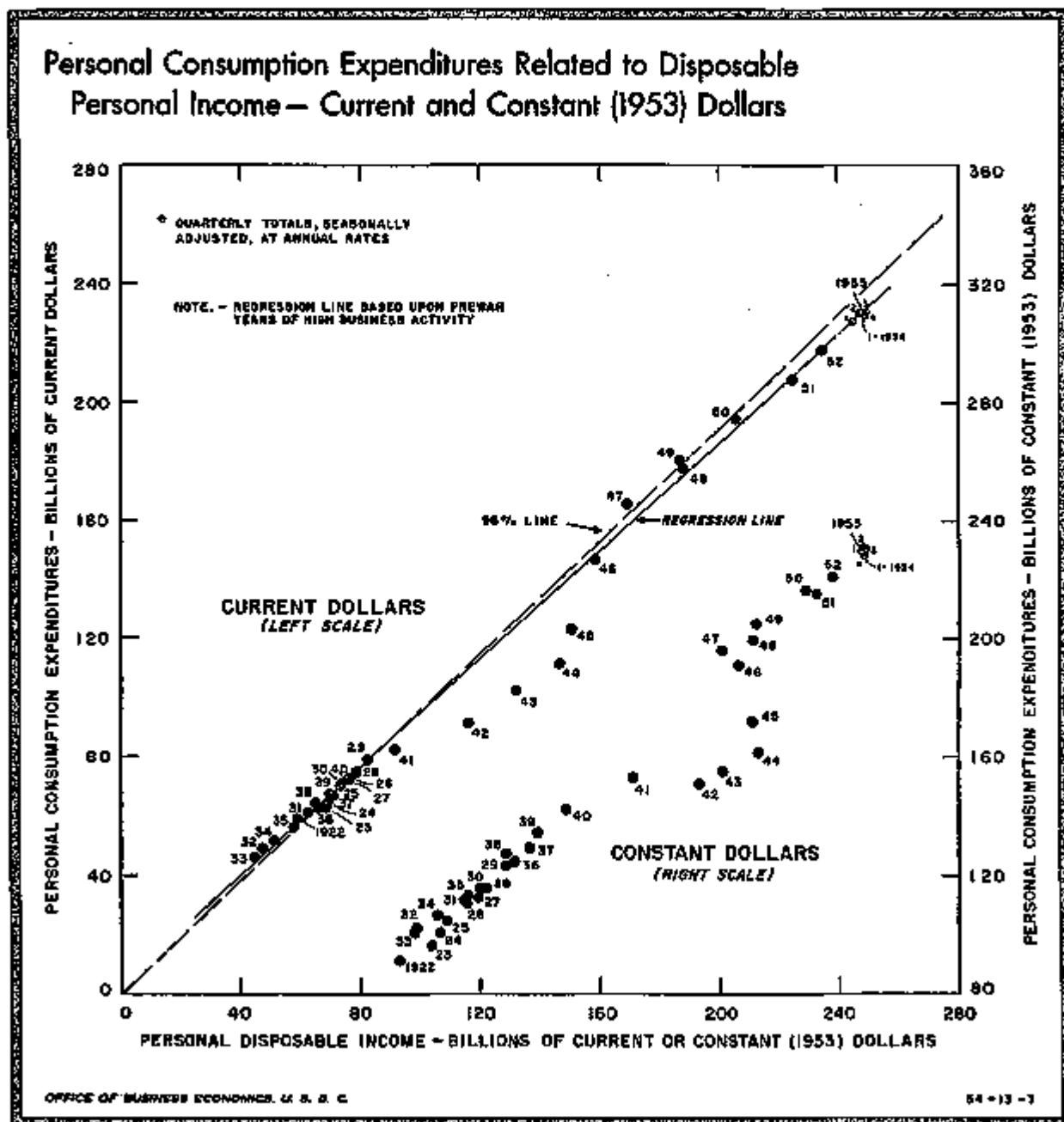
must be used in selecting those years which are not dominated by special and temporary influences. Also, the results have to be weighed with care.

The chart on page 9 shows the pattern of consumption in relation to disposable personal income for the period

Clothing buying relatively low

In contrast to food expenditures, consumers did not increase their outlays for clothing and shoes in any consistent relation to the substantial rise in income during the recent post-war years. As the lower part of the chart indicates, expenditures on clothing and shoes increased only 10 percent from 1946 to 1953 compared with the rise of 56 percent in disposable personal income.

These expenditures varied by relatively small amounts in the intervening years. As a result, the ratio of expenditures for clothing and shoes to income has fallen continually since the early postwar period. The 1953 ratio of 8 percent was lower than in any year in the past 25 years. Examination of sales by kinds of apparel stores indicates that the expenditure-income ratios were relatively low for most types of clothing, although buying of women's and children's clothing have held up better than clothing for men.



For the remaining nondurable goods categories, which include expenditures for drugs, gasoline and oil, fuel, magazines, newspapers, etc., a similar analysis indicates that the combined expenditures for these groups has paralleled the movement of disposable personal income both in the prewar and postwar years.

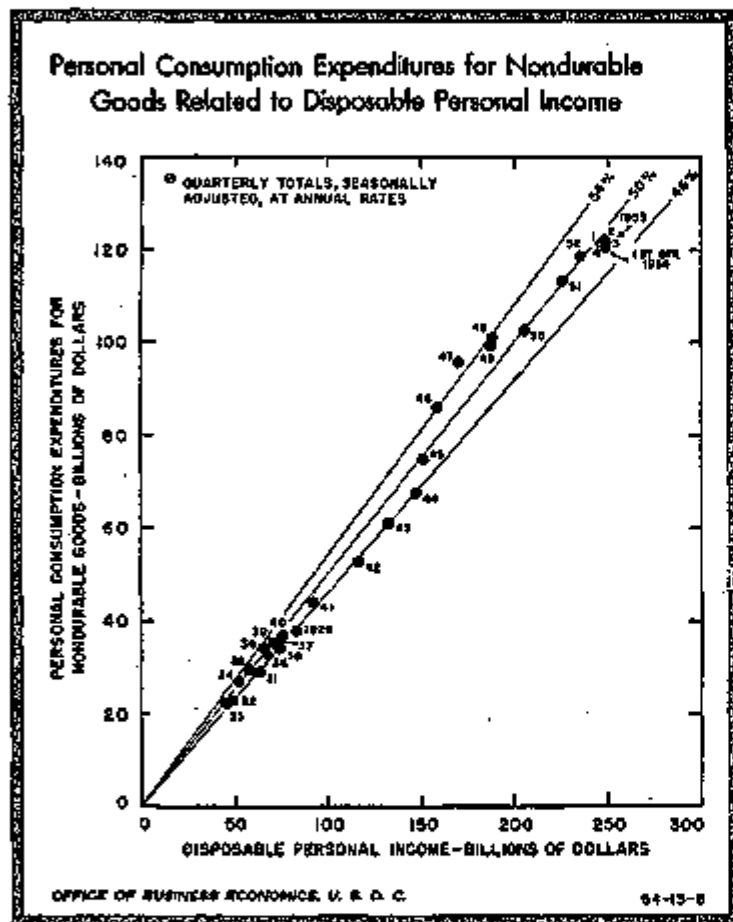
Buying of durable goods

Throughout the postwar period consumers have spent a relatively high proportion of their income for durable goods. In the first few years after the war this represented a filling

what exaggerated degree. These tendencies are shown in the chart by the drifts along the scale of the percentage lines for the prewar years of rising and falling incomes.

These adjustments appear to be derived in part from the long life of the goods, and the flexibility of replacement, and in part from the use of credit as an important element in financing purchases. Consumers are more willing to increase instalment debt when income is rising, and are more reluctant to incur increased indebtedness when income declines and prospects appear less favorable. Analyses of various types of consumer durables suggest that these influences are especially pronounced in the case of automobiles.

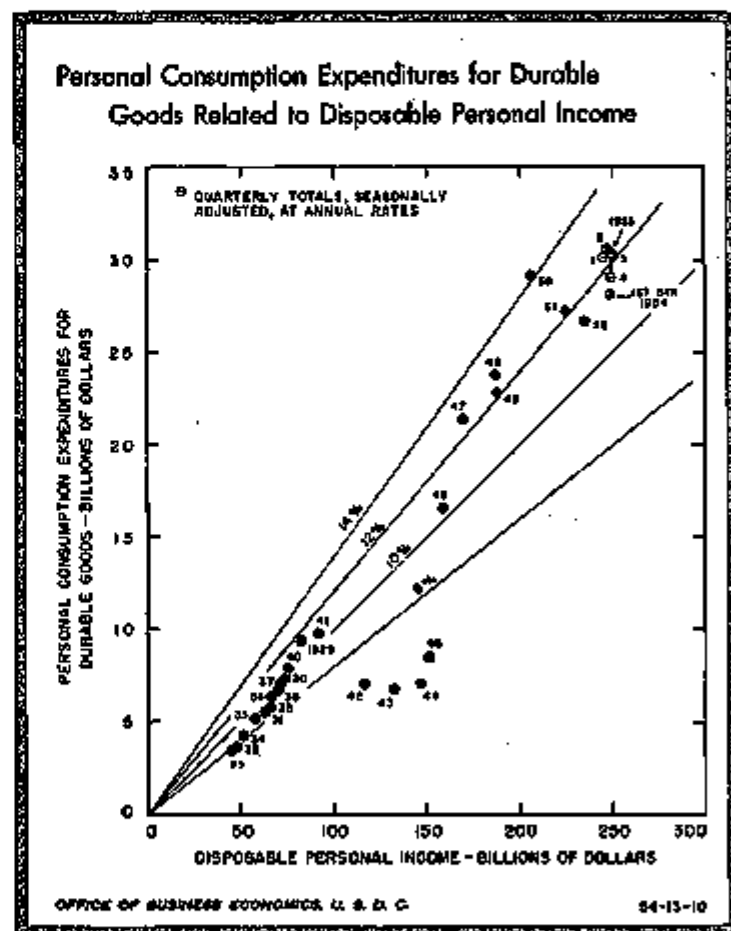
In the period before World War II, fluctuations in the purchase of automobiles were much greater than changes in purchases of other consumer durables. Consumers spent twice as high a proportion of disposable income for automobiles and parts in 1929 as in the depth of the depression in 1932, whereas the proportion spent for furniture and home furnishings was one-third higher. Automobile purchases were likewise more volatile during the recovery period of the thirties and the recession after 1937.



of war-accumulated deficiencies in addition to current large requirements for replacement and growth. In recent years, spending for such goods has continued to represent a larger proportion of disposable income than in most of the prosperous prewar years. Beginning in the third quarter of 1953 and continuing through the first quarter of 1954, the proportion spent for durable goods eased downward, approaching the proportion spent in 1929 but remaining higher than in any of the subsequent prewar years. Appraisal of the current rate of buying is assisted by an examination of the historical pattern of such purchases in relation to disposable income.

Nature of demand

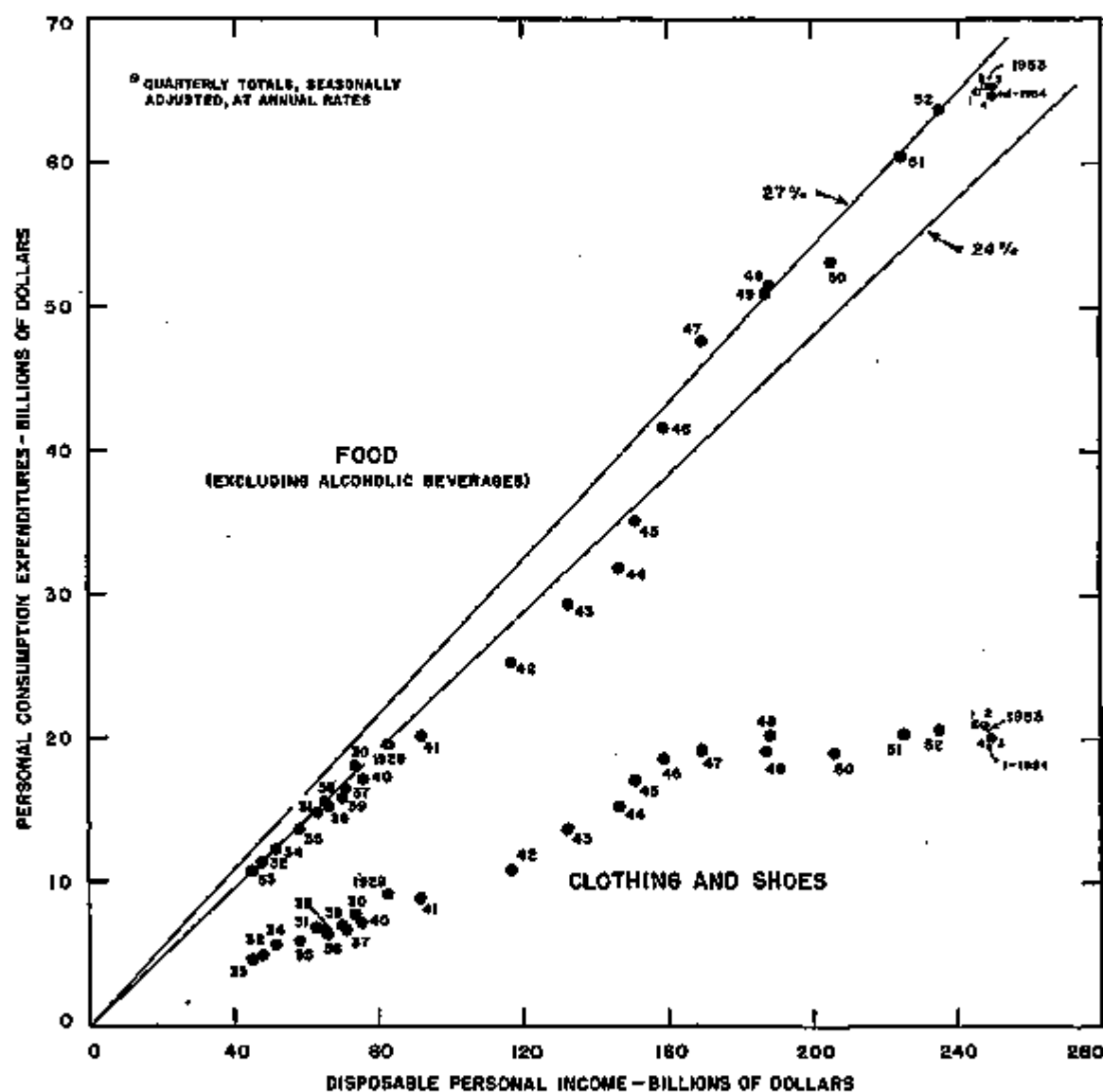
Durable goods expenditures are much more sensitive than other consumer expenditures to changes in income. Furthermore, the influence is felt more promptly, often in a some-



In 1953, consumers spent \$13.6 billion for autos and parts, nearly half of all consumer durable goods purchased during that year. This was substantially more than in any preceding year, representing 5.3 percent of disposable income. Purchases declined in the latter part of 1953 and early 1954. In the first quarter of 1954 they were 10 to 12 percent below the unusually favorable sales of a year earlier.

For the prewar period, changes in purchases of new automobiles can be largely explained in terms of the following major factors: (1) real disposable income per household of both current and the preceding year; (2) automobile prices

Personal Consumption Expenditures for Food (excluding alcoholic beverages) and Clothing and Shoes Related to Disposable Personal Income



OFFICE OF BUSINESS ECONOMICS, U. S. D. C.

54-13-9

in relation to consumer prices; and (3) scrappage age of automobiles.

There is a large potential market for automobiles. Income is the most important factor and a continued high level of income assures a sizable volume of car sales. In addition, the influence of changes in auto prices is also important. Since sales of automobiles have been high in the past several years, the age-distribution of cars on the road has shifted toward more younger cars and fewer older models. But there are still about 10 million prewar cars in use, the youngest of which are now over 12 years of age. This provides the basis for a large potential replacement market.

Stable purchases of furniture

Consumer buying of furniture and house furnishings has totaled about \$12 billion in each of the past 3 years, tending to drop a little in relation to disposable personal income. Currently, the ratio of these expenditures to income of about 5 percent is considerably below that of the immediate postwar years 1947-49, when consumers were filling backlogs of many of the items in this group. In the buying waves of the third quarter of 1950 and the first quarter of 1951, these expenditures were up sharply relative to income and the lower ratios since then have in part reflected some reaction to the stocking up of these goods at that time as well as in the prior postwar years.

The current ratio to income is about in line with those prevailing in the years of the late thirties, but below 1929 and 1941. Purchases of these goods in the prewar years showed moderately greater fluctuations than disposable income.

In the first quarter of 1954 major appliances and TV purchases were about even with a year earlier, and slightly higher than in the latter part of 1953 on a seasonally adjusted basis. For some of the products in this group, however, short-term fluctuations were great enough so that producers were not able to fit their production schedule to demand. This has brought erratic inventory movements in relation to sales. Production was at a high rate early in 1953, and there was considerable stock accumulation for a number of the principal products in this group. This was followed by a substantial and general cutback in production. Though complete details are not available by products, in some instances stocks have been pared sharply.

This has been notable in the case of television, where stocks had risen and sales had slackened in late 1953. Production was cut back sharply toward the end of 1953 and remained low in early 1954. Retail sales were stimulated in the first quarter of 1954, partly by aggressive merchandising including substantial price reductions. The bulge in television inventories of last year has been trimmed away. Such adjustment has not been general throughout the appliance field, though stocks had not risen so much in other lines and hence there was less incentive for severe curtailment.

Furniture buying eased off moderately in the latter part of 1953 but was steady in early 1954, at about the level of a year earlier.

Services rise relative to income

Consumer expenditures for services in the first quarter of 1954 represented nearly one-third of disposable personal income. In the past 3 years such expenditures have tended to rise gradually relative to income with all major groups of services participating in the advance. The ratios to disposable income of recent years, however, were still below those of most of the interwar years.

Expenditures for services are generally not so sensitive to income changes as are many of the categories of goods purchases. In periods of rapidly rising income, the ratio of services expenditures to income tends to drift downward, in contrast to durable goods for which the ratio tends to rise. Part of this lag is due to the fact that expenditures for services are influenced not only by the income of the current year, but also by incomes of preceding periods. Many groups of services such as private education, household utilities, and certain types of purchased transportation, are quite sluggish in their response to income changes and it is only after a sustained income decline that expenditures for these groups are appreciably curtailed. Also, the long-run secular uptrend contributes to the relative stability of many of the services.

It is convenient to consider expenditures for services in two categories, namely, expenditures on housing and on all other types of services. In 1953 expenditures for housing comprised one-third of the total service expenditures, and the remaining two-thirds represented a heterogeneous group of items in which household operation was the largest component.

Because of the diverse character of the services other than housing, there is a variety of patterns of sensitivity to changes in income among the individual items. As a group, however, such expenditures in the postwar period have followed a close relation to changes in disposable income—a relation which is consistent with that indicated in the prewar period. Such expenditures, however, are strongly influenced by the level of income of the preceding year as well as that of the current year. Thus, a closer relationship is obtained if the average of the current year and preceding year incomes is used instead of just the current year. Because of this lag, this group of expenditures would tend to hold up even in the face of moderate declines in total economic activity. In the moderate business decline of 1948-49, for example, expenditures for these services actually increased.

Expenditures on housing have been about 10 percent of disposable income in each of the years since 1949. This ratio is considerably below that which prevailed in the prewar years.

The lower ratio of recent years has been due in large part to the fact that rents usually lag in periods of price change, and this has been true in recent periods of rent controls.

Summary

1. Total consumer expenditures have been relatively stable during the past 6 months. However, the pronounced decline in durable goods purchases, though largely offset by a rise in services, has been one of the influences lowering employment and production.

2. Consumption tends to accompany movements in disposable personal income, except in a few periods when other factors were more dominant. Consumers shift their purchases from time to time, however, among the various categories of goods and services as changes in liquidity and in their holdings of goods together with gradually changing habits, result in a reapportionment of their spending budgets.

3. Per capita consumer expenditures in real terms have been at a high rate in recent years, so that the consumer fared well despite the diversion of resources to military needs. However, the proportion of the nation's output going into personal consumption has dropped since 1950, because of the much larger proportion of resources going for defense.